

**VERMONT ENERGY EFFICIENCY  
UTILITY FUND  
INDEPENDENT AUDITORS' REPORT**

**For the Years Ended  
December 31, 2007 and 2006**

**G.W. Osterman & Co, P.C.  
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VERMONT ENERGY EFFICIENCY  
UTILITY FUND

Financial Statements With  
Independent Auditors' Report for the Years Ended  
December 31, 2007 and 2006

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## **Independent Auditors' Report**

Vermont Public Service Board  
Montpelier, Vermont

We have audited the accompanying statement of financial position of the Vermont Energy Efficiency Utility Fund (VEEUF), a special reserve fund of the State of Vermont administered by Batchelder Associates, PC as of December 31, 2007 and 2006, and the related statements of revenues, expenditures and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audits provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the VEEUF as of December 31, 2007 and 2006, and the changes in fund net assets and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 17, 2008 on our consideration VEEUF'S internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations and contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The management's discussion and analysis on page 2 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

As discussed in Note 1, the financial statements present only the VEEUF and do not purport to, and do not, present fairly the financial position of the State of Vermont as of December 31, 2007 and 2006, and the changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*G. W. Osterman & Co, PC*

September 17, 2008  
Barre, Vermont

Vermont License No. 92-0000338

# VERMONT ENERGY EFFICIENCY UTILITY FUND

## MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDING DECEMBER 31, 2007

This section of the Vermont Energy Efficiency Utility Fund's annual financial report represents our discussion and analysis of the VEEUF's financial performance during the fiscal year that ended on December 31, 2007. It should be read in conjunction with the VEEUF's financial statements, which follow this section.

### FINANCIAL HIGHLIGHTS

- The VEEUF unreserved fund balance as of December 31, 2007, was \$7,457,401 versus \$5,580,118 at December 31, 2006
- The VEEUF's fund balance increased by \$1,877,283 and \$4,105,347 respectively during the 2007 and 2006 fiscal years as a result of fund assessments exceeding fund expenditures from electric distribution utilities
- VEEUF actual expenditures for 2007 were 2.93% below budgeted levels due to a lower than anticipated level of programmatic support requests during the current fiscal year

### OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of two parts – management's discussion and analysis and the basic financial statements. The basic financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data.

Total disbursements to the eight programs comprising the VEEUF increased by approximately 25% from the prior year, from \$15,037,456 in 2006 to \$18,783,372 in 2007. As of December 31, 2007, the VEEUF had net receivables of \$164,136 consisting primarily of receivables from contributors of \$4,094,452, payable to programs of \$2,257,537, payable to contributors for uncollectibles of \$124,499, accounts payable and accrued expenses of \$1,394,205 and taxes payable of \$154,075. This compares to a net receivables of \$1,457,590 as of December 31, 2006, which consisted primarily of receivables from contributors of \$4,202,178, payable to programs of \$1,863,798, payable to contributors for uncollectibles of \$83,463, accounts payable and accrued expenses of \$656,582 and taxes payable of \$140,745.

As was the case in prior years, the VEEUF maintained an adequate cash flow and balance of funds to satisfy all obligations.

### CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS

In 2006, ISO New England established a Forward Capacity Market (FCM) that will pay suppliers to ensure sufficient capacity is available to meet future peak loads, with the value of such payments determined by auction. This market is unique in that it allows energy efficiency, distributed generation, and other demand resources to compete directly with generators. On December 14, 2006, The VT Public Service Board issued an Order authorizing the EEU to participate in ISO-New England's Forward Capacity Market. Both VEIC and BED are participating in the FCM's Transition Period that extends from year 2007 until June 2010. BED and VEIC expect joint revenues from their FCM participation to be approximately \$850,000 in year 2008.

The Vermont Public Service Board has passed the Vermont Energy Efficiency Fund Budgets for 2009, 2010 and 2011. The 2009 budget is level-funded, the 2010 budget is 15% over the 2009 budget, and the 2011 budget is 15% over the 2010 budget.

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## **Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on Audits of Financial Statements Performed in Accordance with *Government Auditing Standards***

To: Vermont Public Service Board  
Montpelier, Vermont

We have audited the financial statements of the Vermont Energy Efficiency Utility Fund as of and for the year ended December 31, 2007 and 2006, and have issued our report thereon dated August 17, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Vermont Energy Efficiency Utility Fund's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Vermont Energy Efficiency Utility Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Vermont Energy Efficiency Utility Fund's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Vermont Energy Efficiency Utility Fund's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Vermont Energy Efficiency Utility Fund's financial statements that is more than inconsequential will not be prevented or detected by the Vermont Energy Efficiency Utility Fund's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Vermont Energy Efficiency Utility Fund's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Vermont Energy Efficiency Utility Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Vermont Energy Efficiency Utility Fund in a separate letter dated September 17, 2008.

This report is intended solely for the information and use of the Fiscal Agent, Contract Administrator, Vermont Public Service Board, and the State Auditor's Office of the State of Vermont and is not intended to be and should not be used by anyone other than these specified parties.

*G. W. Osterman & Co, PC*

September 17, 2008  
Barre, Vermont

Vermont License No. 92-0000338

VERMONT ENERGY EFFICIENCY UTILITY FUND  
STATEMENTS OF FINANCIAL POSITION  
December 31, 2007 and 2006

	2007	2006
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents (Note 1)	\$ 7,293,265	\$ 4,122,528
Accounts receivable:		
Receivable from energy distributors	<u>4,094,452</u>	<u>4,202,178</u>
Total Current Assets	<u>11,387,717</u>	<u>8,324,706</u>
 TOTAL ASSETS	 <u>\$ 11,387,717</u>	 <u>\$ 8,324,706</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Payable for energy programs	\$ 2,257,537	\$ 1,863,798
Payable to energy distributors for		
uncollectibles and overpayments	124,499	83,463
Accounts payable and accrued expenses	1,394,205	656,582
Taxes payable	<u>154,075</u>	<u>140,745</u>
TOTAL CURRENT LIABILITIES	<u>3,930,316</u>	<u>2,744,588</u>
Fund Balance - Unreserved:		
Designated for contractual customer commitments	633,304	911,379
Designated for DPS monitoring	1,705,895	747,882
Undesignated	<u>5,118,202</u>	<u>3,920,857</u>
TOTAL NET ASSETS	<u>7,457,401</u>	<u>5,580,118</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 11,387,717</u>	 <u>\$ 8,324,706</u>

See accompanying notes to financial statements.

VERMONT ENERGY EFFICIENCY UTILITY FUND  
STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN NET ASSETS  
Year Ended December 31, 2007 and 2006

	2007	2006
REVENUES:		
Assessments (Note 1)	\$ 22,681,802	\$ 20,953,470
Regional capacity market payment	247,000	0
Interest income	129,792	48,305
Total Operating Revenues	<u>23,058,594</u>	<u>21,001,775</u>
EXPENSES:		
Energy programs (Note 2)	18,783,372	15,037,456
Regional capacity market expense	210,034	0
Administrative costs (Note 4)	1,960,989	1,650,593
Taxes (Note 7)	226,916	208,379
Total Expenditures	<u>21,181,311</u>	<u>16,896,428</u>
EXCESS OF REVENUE OVER EXPENDITURES	1,877,283	4,105,347
NET ASSETS - UNRESTRICTED, BEGINNING OF YEAR	5,580,118	1,474,771
NET ASSETS - UNRESTRICTED, END OF YEAR	<u>\$ 7,457,401</u>	<u>\$ 5,580,118</u>

See accompanying notes to financial statements.

VERMONT ENERGY EFFICIENCY UTILITY FUND  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from Energy Distributors	\$ 22,681,802	\$ 20,088,141
Receipts from Regional Capacity Market	247,000	-
Payments for Energy Programs	(16,525,835)	(14,302,395)
Payments for Regional Capacity Market	(210,034)	-
Refunds to Energy Distributors for Uncollectibles and Overpayments	148,762	(83,463)
Payments for General Administration	(2,933,882)	(2,883,553)
Payments to Contract Administrator	(138,282)	(136,766)
Payments to Fiscal Agent	(15,000)	(11,250)
Payments for Taxes	(213,586)	(212,498)
Net Cash Provided by Operating Activities	<u>3,040,945</u>	<u>2,458,216</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest	<u>129,792</u>	<u>48,685</u>
<b>NET INCREASE IN CASH AND EQUIVALENTS</b>	<u>3,170,737</u>	<u>2,506,901</u>
Cash and Cash Equivalents:		
Beginning of Year	<u>4,122,528</u>	<u>1,615,627</u>
End of Year	<u>\$ 7,293,265</u>	<u>\$ 4,122,528</u>
<b>Reconciliation of Increase (Decrease) in Net Assets to Net Cash</b>		
Provided by Operating Activities		
Excess (Deficiency) of Revenues over Expenditures	\$ 1,877,283	\$ 4,105,347
Less: Interest Income	(129,792)	(48,305)
Change in Operating Assets and Liabilities:		
Receivables	107,726	(865,329)
Payable for Energy Programs	393,739	(117,431)
Payable to Energy Distributors for Uncollectibles and Overpayments	41,036	18,000
Accounts Payable and Accrued Expenses	737,623	(629,947)
Taxes Payable	13,330	(4,119)
Net Cash Provided by Operating Activities	<u>\$ 3,040,945</u>	<u>\$ 2,458,216</u>

See accompanying notes to financial statements.



**VERMONT ENERGY EFFICIENCY UTILITY FUND**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2007 and 2006**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Significant accounting policies utilized by the Vermont Energy Efficiency Utility Fund (VEEUF), administered by Batchelder Associates, PC, in the preparation of the accompanying financial statements are summarized below.

**Organization**

In 1999, the State of Vermont established the VEEUF to fund ten core statewide energy efficiency programs. These programs include: commercial energy opportunities; commercial emerging markets; commercial and industrial customer credit; dairy farm program; multi-family and single family low-income programs; residential emerging markets; residential new construction; efficient products; and utility payments. In 2003, the programs were condensed into eight programs: business existing facilities; business new construction; customer credit; business initiatives; energy efficiency products; residential new construction; residential existing buildings; and residential initiatives. In January 2004, the Vermont Public Service Board established the Customer-Credit Program, Net-Pay option. In December 2006 the Vermont Public Service Board authorized the VEEUF's participation in the regional capacity market; administrative costs began in 2006 and full program costs were incurred in 2007.

Pursuant to 30 V.S.A. §209, the Vermont Public Service Board (VPSB) established a volumetric charge to customers, the Energy Efficiency Charge (EEC), for the support of energy efficiency programs. Currently, there are twenty (20) distribution utilities assessing these charges and utilizing the programs.

The VPSB entered into a contract with Batchelder Associates, PC to serve as the fiscal agent of the VEEUF for the period January 1, 2006 through December 31, 2008.

Pursuant to the terms of Docket 5980, the VPSB set the original EEU budget for 2006, 2007, and 2008. Budgets were subsequently revised in a VPSB Order issued August 2, 2006. In response to the budget revision the 2006 EEC charge was revised in a VPSB memo dated August 15, 2006.

**Special Reserve Fund**

The VEEUF is considered a special reserve fund of the State of Vermont. The financial statements presented are not a reflection of the financial position or changes in financial position of the State of Vermont. Because the VEEUF is required by law to finance its activities with fees and charges rather than with taxes or similar revenue, the special reserve fund is presented as an enterprise fund.

**VERMONT ENERGY EFFICIENCY UTILITY FUND**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2007 and 2006**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Basis of Presentation**

These statements have been prepared on the modified accrual basis in accordance with Governmental Accounting Standards Board (GASB), for the periods presented. For the years ended December 31, 2007 and 2006 the VEEUF had accounting transactions in the unreserved fund balance only. The VEEUF's financial statement presentation follows the recommendation of GASB No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments" and amendments. GASB No. 34 as amended establishes standards for financial reporting for state and local governments.

**Cash and Cash Equivalents**

All highly liquid securities, purchased with a maturity of three months or less, are considered cash equivalents. Interest is credited to the VEEUF when earned and the investment rate averaged 1.80 and 1.98 percent during the years ended December 31, 2007 and 2006 respectively.

**Revenue Recognition**

Vermont electrical distribution utilities are required to assess their customers based on usage at a statutory rate. The assessments are then remitted to the VEEUF. It is the VEEUF's policy to recognize all self-assessments received within two months of the fiscal period. Any late remittances will be recognized in a subsequent period or periods.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

**Fund Balance Designations**

In accordance with National Council on Governmental Accounting Statement 1 (NCGAS 1) paragraph 120, contractual customer commitments and Department of Public Service funding set-asides for monitoring and evaluation of the VEEUF have been shown as a designation of fund balance in the statement of financial position. Designations represent financial resources available to finance expenditures which by their nature are tentative. Performance incentive contracts only result in payment after customers have made certain improvements relating to energy efficiency. The actual amounts of such payments are not known in advance, but have been estimated and shown as a designation of fund balance in the statement of financial position. DPS monitoring and evaluation is budgeted for the three year contract period and prorated to designated fund balance each year. Actual monitoring and evaluation expenses may differ from the funding set-asides. The year ending December 31, 2006 is the first year of a 3-year contract; the undesignated fund balance remains available for efficiency program expenses during the next two years.

**VERMONT ENERGY EFFICIENCY UTILITY FUND**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2007 and 2006**

**NOTE 2 - DISTRIBUTIONS TO ENERGY PROGRAMS**

Distributions to the Vermont Energy Investment Corporation (VEIC) and other qualified providers were made by Batchelder Associates, PC during the years ended December 31, 2007 and 2006, in accordance with the terms of their contracts or as directed by the contract administrator, with concurrence of the Vermont Public Service Board. The VEIC uses the disbursements to fund various programs.

Approximate amounts incurred by program (In Thousands) as of December 31, 2007 and 2006, are as follows:

	<u>2007</u>	<u>2006</u>
EVT (Efficiency Vermont):		
Business Existing Facilities	\$ 6,314	\$ 4,416
Business New Construction	2,315	2,007
Customer Credit	10	12
Customer Credit Net Pay Option	933	711
Energy Efficient Products	2,611	1,634
Residential New Construction	2,793	2,655
Residential Existing Buildings	2,780	2,688
	<u>17,756</u>	<u>14,123</u>
<u>BED (City of Burlington Electric Department):</u>		
Business Existing Facilities	403	354
Business New Construction	232	240
Residential New Construction	115	104
Residential Existing Buildings	183	127
Energy Efficient Products	94	89
	<u>1,027</u>	<u>914</u>
	<u>\$ 18,783</u>	<u>\$ 15,037</u>

**NOTE 3 - RESTATEMENT OF STATEMENT OF CASH FLOWS**

The 2006 Reconciliation of Increase in Net Assets to Net Cash of the Statement of Cash Flows on the bottom of page 6 has been restated. The change in the Payable for Energy Programs has decreased \$123,645 and nets to \$(117,431). The change in the Payable to Energy Distributors for Uncollectibles and Overpayments has increased \$83,463 and nets to \$18,000, and the change in Accounts Payable and Accrued Expenses has decreased \$40,182 and nets to \$(629,947). These changes offset each other.

**VERMONT ENERGY EFFICIENCY UTILITY FUND**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2007 and 2006**

NOTE 4 - ADMINISTRATIVE COSTS (In Thousands)

General costs incurred by the VEEUF relating to the energy programs as of December 31, 2007 and 2006, are as follows:

	<u>2007</u>	<u>2006</u>
General Administration	\$ 915	\$ 728
Information Technology	637	494
Monitoring and Evaluation	246	262
Contract Administration	138	137
Fiscal Agent	15	11
Audit	8	17
VSPC Participation Activities	1	-
EEU Advertising	1	2
Total	<u>\$ 1,961</u>	<u>\$ 1,651</u>

Pursuant to the contract between the Vermont Public Service Board and the Vermont Energy Investment Corporation, the VPSB proposed a performance-based award program for VEIC based on achievement of certain performance benchmarks designed to promote energy efficiency in the State of Vermont. The performance measurements span a period of three years from 2006 to 2008 with a total award for the three-year period potentially amounting to \$2,347,000. The maximum annual performance incentive of \$758,600 has been accrued in 2007 and is included in general administration above. The 2006 performance incentive of \$616,400 is included in general administration for 2006 above. The total accrued performance incentive payable is \$1,375,000 as of December 31, 2007.

VEIC's achievement of contract performance benchmarks for 2003 through 2005 has been evaluated and the actual award of \$1,280,000 was approved and paid in July 2006.

NOTE 5 - FISCAL AGENT SERVICES CONTRACTS

Under the contract between the VPSB and Batchelder Associates, PC, the fiscal agents are reimbursed a fixed amount each fiscal year plus allowable variable expenditures, as defined. The fiscal agent was paid \$15,000 for fixed expenses and \$79 for variable expenses, and the external audit fee was \$7,500 for the year ending December 31, 2007. For the year ended December 31, 2006 Batchelder Associates, PC was reimbursed for fixed expenses of \$11,250 and variable expenses of \$47 and the external audit fee totaled \$7,500.

**VERMONT ENERGY EFFICIENCY UTILITY FUND**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**DECEMBER 31, 2007 and 2006**

**NOTE 6 - INCOME TAXES**

These financial statements present the activities of the VEEUF. The activities of the VEEUF are tax-exempt since the VEEUF is a special reserve fund of the State of Vermont, and therefore not subject to federal or state income taxes or other taxes besides the gross receipts tax and weatherization tax described in Note 7 below. As such, no provision for taxes other than the gross receipts tax and weatherization tax has been reflected in the accompanying financial statements.

**NOTE 7 - OTHER TAXES**

One-half percent of assessments collected in 2007 and 2006 are payable to the home weatherization assistance trust fund. Home weatherization assistance trust fund disbursements are made quarterly. Also, one-half percent of assessments collected in 2007 and 2006 are payable to the gross receipts tax fund, which is paid annually.

As of December 31, 2007 and 2006, the following was payable to the tax funds (In Thousands):

	<u>2007</u>	<u>2006</u>
Home Weatherization Assistance Trust	\$ 20	\$ 41
Gross Receipts Tax	134	100
Total	<u>\$ 154</u>	<u>\$ 141</u>

Expenditures (In Thousands) related to the years ended December 31, 2007 and 2006, were:

	<u>2007</u>	<u>2006</u>
Home Weatherization Assistance Trust	\$ 113	\$ 104
Gross Receipts Tax	113	104
Total	<u>\$ 226</u>	<u>\$ 208</u>

**NOTE 8 - CONCENTRATION OF CREDIT RISK**

The Fund maintained its cash balances at Chittenden Bank under the control of the fiscal agent, Batchelder Associates, PC. Excess balances are "swept" into government securities on a daily basis under a repurchase agreement. The repurchase agreement is collateralized by a pool of US government agencies or US Treasury notes held at the Federal Reserve Bank of Boston. As of June 30, 2008, these securities provided a balance to market value of 68.3813%. Balances as of December 31, 2007 were as follows (book balance differs from bank balance for outstanding checks):

<u>Account Description</u>	<u>Per Bank</u>	<u>Per Books</u>
Business checking (FDIC insured)	\$ -	\$ -
Repurchase agreement (collateralized, uninsured)	7,459,463	7,293,265
Totals	<u>\$ 7,459,463</u>	<u>\$ 7,293,265</u>